

KARL T. KLEIN
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0320
IDAHO BAR NO. 5156

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IDAHO PUBLIC
UTILITIES COMMISSION

Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5918

Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER)	
COMPANY'S APPLICATION FOR)	CASE NO. IPC-E-15-03
APPROVAL OF NEW TARIFF SCHEDULE 82,)	
A COMMERCIAL AND INDUSTRIAL)	COMMENTS OF THE
DEMAND-RESPONSE PROGRAM (FLEX)	COMMISSION STAFF
PEAK PROGRAM).)	
_____)	

The Staff of the Idaho Public Utilities Commission comments as follows on Idaho Power Company's Application for approval of new tariff Schedule 82, a Commercial and Industrial Demand-Response Program (Flex Peak Program).

BACKGROUND

On February 4, 2015, Idaho Power Company applied to the Commission for an Order authorizing the Company to implement a new schedule—Schedule 82, Flex Peak Program—and continue recovering its demand-response program expenses in the current manner. A third party (EnerNOC) managed the earlier program. The Company's contract with the third party has expired, however, and the Company believes it can save costs for all customers and increase program transparency by managing the new Flex Peak Program itself. The Company asks the Commission to process the case under Modified Procedure, and to issue an Order by May 1, 2015, so the Company can solicit participants and implement the program by June 15, 2015.

The Flex Peak Program would enable commercial and industrial customers to voluntarily reduce their loads on summer peak days. The Company implemented an earlier version of the program—the FlexPeak Management Program—in 2009. Since then, the earlier program has achieved between 8.5 and 39.3 megawatts (MW) of generation-level reductions per year.

The Company says most of its Energy Efficiency Advisory Group’s members cautiously support the Company managing the program.

In Order No. 32923 the Commission approved a settlement agreement that set the following design parameters for the Company’s FlexPeak Management Program:

- a. Participants. Idaho Power will not actively seek to expand the capacity of the FlexPeak [Management] Program. Participants are industrial and large commercial customers.
- b. Program Details. The FlexPeak Management Program will be available from June 15 through August 15, Monday through Friday, from 2:00 p.m.- 8:00 p.m., excluding holidays. Each dispatch event will last up to four hours per participant within the available program hours. Dispatch events will not occur more than 60 hours per season. In the event of a system emergency, demand response capacity from the FlexPeak Management program will be available. Idaho Power will conduct a minimum of three dispatch events per season. There will be two hours advanced notice to participants.
- c. Incentive. A fixed and variable payment structure may be appropriate, as long as the variable portion is low enough that it does not prevent the program from being dispatched. If a variable and fixed incentive structure is used, a minimum of three dispatch events will be included in the fixed incentive. The variable incentive will be paid to participants if Idaho Power conducts dispatch events in the FlexPeak Management program for more than the three minimum dispatch events.

See Case No. IPC-E-13-14, Demand Response Programs Settlement Agreement, pp. 7-8. The Company says it has incorporated these parameters into its current proposal for an internally-managed Flex Peak Program.

The Company says the new Flex Peak Program will be available to commercial and industrial customers taking service under Schedules 9, 19, or a special contract. The Company will promote the program to past commercial and industrial demand response program participants. As explained in Schedule 82, customers who intend to participate must apply to participate in the program before each program season begins.

The Company proposes a June 15 through August 15 season for the Flex Peak Program. During the season, the Company will call at least three dispatch events. The events will occur between 2:00 p.m. and 8:00 p.m., Monday through Friday, excluding holidays, and last from two to four hours per day but not more than 15 hours per week or 60 hours per season. The Company will notify participants of an impending event at least two hours before the event occurs.

The proposed Flex Peak Program's incentive structure includes fixed and variable payments. For the first three events, the capacity payment would be \$3.25 per weekly effective kilowatt (kW) reduction, multiplied by: (1) the actual kW reduction received during a dispatch event, or (2) nominated if there is no event. The variable payment would be \$0.16 per kilowatt-hour (kWh) reduced, effective after the first three events have been called for the program season. The Company would send checks to participants within 30 days after the program season ends.

The Company expects its *total costs* for the Flex Peak Program will range from about \$1.1 million per year without variable payments, to \$1.4 million per year if the program has 35 MW of nominated reductions and is dispatched for 60 hours. It expects that the Flex Peak Program's *incentive payments* would range from about \$0.9 million per year with no variable payments, to about \$1.27 million if the program is dispatched for the maximum hours allowed. The Company does not propose changing customer rates that fund the program. Rather, it believes the current level and method of recovery will adequately fund the program for the foreseeable future. The Company's Demand-Side Management (DSM) Annual Report would report on all program activities, including how the program impacts the Energy Efficiency Rider and what incentives are to be included in the Company's annual Power Cost Adjustment (PCA).

The Company currently recovers about \$2 million a year in commercial and industrial demand response costs through base rates. The Company recovers or credits deviations above or below the base amount through the PCA. This allows 100% of any annual program cost savings to flow to customers by June of the following year. The Company notes that demand response costs tracked through the PCA would include only the incentives paid to participants, or the amounts paid to third-party demand aggregator contractors. The Company would continue to recover its labor costs for administering the program through the Energy Efficiency Rider.

STAFF ANALYSIS

The Company proposes to self-administer the Flex Peak Program, and claims that it will reduce program costs. Staff estimates program costs will decrease by about \$600,000 per year.¹ The Company's plan includes changes to both program delivery and the incentive structure. Staff cautiously supports the Company's proposal. But Staff is concerned that the proposed changes may negatively impact program performance, reliability, and participation. Staff's concerns are explained below.

Program Delivery Concerns

The Company proposes to decrease the number of kW a customer must be able to shed to participate in the program. The Company says this lower kW eligibility cap will enable smaller customers to participate in the program for the first time. Staff does not oppose lowering the cap, but Staff believes adding more small customers to the program could add administrative costs that reduce the value of self-administration.

The Company also plans to discontinue some of the prior administrator's practices. For example, the Company will no longer provide real-time load monitoring equipment to program participants. This equipment lets participants see their actual demand reduction during an event and whether they are meeting their nominated amounts. According to the Company, most participants have sophisticated equipment to help manage their load. Anticipating that discontinuing this service could be problematic, the Company informally asked 25 current program participants whether the Company would impede their participation in the program if it stopped providing the monitoring equipment. While most participants said they would still participate without the equipment, nine out of twenty-five said the equipment and real-time load data was important to them. In light of this response, the Company says it will help customers who want the software find a solution. But the Company also says those particular customers, and not the program, will bear the related expenses. Staff is concerned that some potential participants may decline to participate in the program if the Company requires them to bear this expense. Even more importantly, Staff believes that the lack of real-time monitoring equipment may limit new, smaller participants' ability to consistently and reliably reduce their demand.

¹Staff calculated this amount based on \$2 million associated with Commercial and Industrial demand response program costs allocated to base rates and the \$1.4 million total program expense for maximum dispatch. (Application, pages 6-7).

The Company did not, however, survey these prospective new participants, and it thus lacks information about whether they need the equipment to successfully participate in the program. Staff believes smaller customers are less likely to have their own monitoring equipment, and that the expense of obtaining it may significantly detract from their total incentive for participating, particularly since their load reduction is likely to be smaller than that of past participants.

The Company also plans to stop providing mid-event coaching for participants who needed reminders about how much or which aspects of their facilities to curtail. This mid-event coaching enabled participants to make their facility more dispatchable and, consequently, improved the program's reliability. Most participants may be larger customers that previously participated in the program, and who might also have sophisticated equipment to help manage load. But Staff remains concerned that combining untrained new participants with the absence of event coaching and real-time load monitoring software could lead to a less reliable demand-response resource.

Incentive Structure Concerns

Staff thoroughly reviewed the Company's proposed methodology for measuring event demand reduction. Before the Company decided to self-administrate the program, it issued a Request for Proposals to third parties. Assuming that the response from the prior administrator, EnerNOC, reflects how the FlexPeak program was previously administered, Staff believes the Company's proposed methodology may decrease incentive payments when compared to the prior approach.

[This section of Staff's comments contains confidential information]²

² [This section of Staff's comments contains confidential information]

[This section of Staff's comments contains confidential information]

The Company maintains that the revised program pays participants only for the demand reduction the Company actually receives during an event. However, reducing customer incentives for lower usage on the Company's peak days may decrease the reliability of participants' demand reduction.

[This section of Staff's comments contains confidential information]³

[This section of Staff's comments contains confidential information] Participants must be notified about events at least two hours before an event. So, if the Company calls an event from 2pm – 6pm, the notification would happen no later than 12pm, and the adjustment period would be from 10am – 12pm. But since the tariff does not limit how early the Company may issue event notifications, the adjustment period could conceivably start more than four hours before an event dispatch.⁴

³ **[This section of Staff's comments contains confidential information]**

⁴ According to the Settlement Stipulation in Order No. 33036, participants will be notified at least two hours before an event, but it does not place a limit on how far in advance the Company may notify participants.

Shifting the adjustment period earlier in the day is problematic for two reasons. First, energy usage further from the event (at least four hours rather than [This section of Staff's comments contains confidential information]) is less representative of the likely difference in usage during an event. Second, to the extent a facility's demand is weather-related, determining the magnitude and direction (up or down) of the adjustment based on the difference between forecasted and actual demand from [This section of Staff's comments contains confidential information] may be smaller than the difference between forecasted and actual demand from 12pm – 2pm. This difference may create regular downward baseline adjustments. As previously explained, downward baseline adjustments decrease customers' incentive payment for each event and may, therefore, negatively impact program participation.

Staff acknowledges that the Company may want to shift the adjustment-calculation period to stop participants who would otherwise attempt to game the system by increasing consumption after event notification (in the two hours before an event) and then shutting everything down during the event. However, FlexPeak participants in the demand-response workshops indicated that demand reduction in most sites is manual, meaning an employee walks around the facility and physically turns consumption down or off on several or many devices. The demand response settlement preserved the two-hour event notification for FlexPeak—but not A/C Cool Credit or Irrigation Peak Rewards—which recognizes that the manual process is labor intensive and time consuming. This means that it may be difficult, if not impossible, for participants to quickly ramp demand up and down to maximize their incentive.

To prevent unreasonable day-of-event adjustments, Staff recommends that the Company file a revised tariff specifying that the event notifications occur two hours before an event, rather than “at least” two hours before an event. This will align the tariff with language in both the Company's Application and supporting testimony.

Since the Company maintains that internal administration costs for the program will increase, Staff concludes that the cost savings under the revised program will come from removing load-monitoring equipment, discontinuing event coaching, and most importantly, using an alternate methodology for calculating per-event customer incentives.

Recommendation

Despite some concerns, Staff cautiously supports the Company's proposal. The lack of near-term capacity deficits makes this a reasonable time to experiment with program

administration in order to achieve cost-savings for customers. If the Company can deliver the same reliable resource for less money, customers will be better off.

Furthermore, the Company has pointed out that self-administration gives it the opportunity to cross market its energy-efficiency programs. Staff is encouraged that the Company is looking for these opportunities. Additionally, the Company has received support from some of its industrial customers who would like more transparency in the contracts and a more timely incentive payment than EnerNOC provided.

Staff thus recommends that the Company begin a one-year pilot of the proposed program. To track the success of this effort and ensure an off-ramp from self-administration if necessary, Staff recommends that the Company provide an end-of-season report, on or before 80 days of the Program ending. Staff believes the filing date of the Company's annual DSM report is too close to the Program's start date for relevant stakeholders to submit thoughtful suggestions and critiques. The end-of-season report should detail the number of participants, number of participating sites, MW of demand response under contract, MW of demand response realized and incented per dispatch, percent of nominated MW achieved in each dispatch event by participant, and a detailed cost analysis of the Program. The Company should file this end-of-season report as a compliance filing to this case, upon which parties to the case and other stakeholders may recommend to the Commission that the Company either continue to directly administer the program or otherwise issue a Request for Proposals (RFP) to resume third-party administration. As is current practice, Staff expects that the Company will continue to provide program updates in its annual DSM report.

STAFF RECOMMENDATION

Based on the information reviewed by Staff and presented in these comments, Staff recommends that the Company:

1. Provide an end-of-season report, on or before 80 days of the Program ending. The report should detail the number of participants, number of participating sites, MW of demand response under contract, MW of demand response realized and incented per dispatch, percent of nominated MW achieved in each dispatch event by participant, and a detailed program cost analysis; and

2. File a revised tariff specifying that event notification shall occur two hours before an event, rather than “at least” two hours before an event. This will align the tariff with language in the Company’s Application and supporting testimony.

Respectfully submitted this 8th day of April 2015.



Karl T. Klein
Deputy Attorney General

Technical Staff: Stacey Donohue

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 8TH DAY OF APRIL 2015, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-15-03, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

LISA D NORDSTROM
REGULATORY DOCKETS
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-mail: lnordstrom@idahopower.com
dockets@idahopower.com
(Lisa - Confidential Comments)
(Dockets – Non-Confidential Comments)

PETER J RICHARDSON
GREGORY M ADAMS
RICHARDSON ADAMS PLLC
PO BOX 7218
BOISE ID 83702
E-mail: peter@richardsonadams.com
greg@richardsonadams.com
(Confidential Comments)

TAMI WHITE
QUENTIN NESBITT
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-mail: twhite@idahopower.com
qnesbitt@idahopower.com
(Non-Confidential Comments)

DR DON READING
6070 HILL ROAD
BOISE ID 83703
E-mail: dreading@mindspring.com
(Confidential Comments)



SECRETARY

CERTIFICATE OF SERVICE